

Message Text

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ACTION AID-31

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FM AMEMBASSY DACCA

TO SECSTATE WASHDC PRIORITY 4975

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E.O. 11652: N/A

TAGS: EAGR, EAID, BG

SUBJECT: PL-480, TITLE I AMENDMENT. SECOND NEGOTIATING SESSION

REFS: A. DACCA 2999, B. DACCA 2445 C. DACCA 3082

1. SUMMARY. AT JUNE 7 SESSION, BDG DEL DESCRIBED NEW ADMINISTRATIVE ARRANGEMENTS FOR 1977 AMAN PROCUREMENT DRIVE, ORIGINALLY CITED BY PLANNING ADVISOR HUDA (REFTEL B). THESE, PLUS TIMELY ANNOUNCEMENT OF AMAN PROCUREMENT DRIVE, AND INCREASE IN PROCUREMENT PRICE (REF C), ARE POSITIVE STEPS TOWARD IMPROVED PROCUREMENT PERFORMANCE IN 1977/78. OFFICIALS ALSO EXPLAINED FORTHCOMING CHANGES IN RATION MIX TO INCREASE WHEAT PORTION AND DECREASE RICE PORTION. WE EXPECT TO OBTAIN READING ON ANY OTHER FOOD POLICIES BDG MAY BE CONTEMPLATING WHEN BDG RELEASES JUNE 9 ITS MEMORANDUM FOR BANGLADESH AID GROUP MEETING. END SUMMARY.

2. PROCUREMENT DRIVE. USG NEGOTIATING TEAM WELCOMED TIMELY ANNOUNCEMENT OF NEW HIGHER AMAN PROCUREMENT PRICE (REFTEL C) AND OFFERED SUGGESTIONS FOR FURTHER STEPS TO RAISE FARMGATE PRICES, INCLUDING (A) DIFFERENTIAL PROCUREMENT PRICE FOR HYV OVER LOCAL RICE; (B) STARTING AMAN PROCUREMENT EARLY (BY LATE NOVEMBER); AND (C) ACCEPTING SMALL QUANTITIES FROM FARMERS AND PAYING CASH. IN RESPONSE, BDG OFFICIALS (SAME GROUP AS AT FIRST SESSION) DESCRIBED NEW ADMINISTRATIVE STEPS DECIDED UPON TO ENHANCE EFFECTIVENESS OF 1977 AMAN PROCUREMENT

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DRIVE:

(A) HIGHER PROCUREMENT PRICE - SEE REFTEL C; (B) BDG TO BUY AND THEN DRY AND BAG MOIST PADDY, WITH SMALL DISCOUNT FROM NEW PROCUREMENT PRICE PROPORTIONATE TO AMOUNT TO MOISTURE; (C) BDG TO BUY DIRECTLY FROM: (I) FARMERS; (II) APPOINTED GRAIN DEALERS (AGD); (III) TRADERS; AND (IV) UNION PARISHAD (COMMITTEE/COUNCIL) AND VILLAGE PRODUCTION COMMITTEEFQM GROUP (IV) IS NEW, AND WAS ADDED TO REDUCE

SCOPE FOR AGD'S TO PAY FARMER BELOW PROCUREMENT PRICE, AND GENEALLY INCREASE OPPORTUNITIES FROM FARMER TO SELL AT PROCUREMENT PRICE. U.S. TEAM WELCOMED THESE DECISIONS AND SUGGESTED BDG CITE THEM AT PARIS BANGLADESH AID GROUP MEETINGS. BDG OFFICIALS AGREED ONLY TO KEEP "UNDER STUDY" POSSIBLE DIFFERENTIAL PROCUREMENT PRICE TO ENCOURAGE HYV CULTIVATION OVER LOCAL VARIETIES, AND THEY DID NOT RESPOND DIRECTLY TO SUGGESTION OF AN EARLY PROCUREMENT DATE.

3. REQUEST FOR ASSISTANCE. TO ENABLE BDG TO DRY PADDY EFFECTIVELY, ADDITIONAL DRYERS WOULD BE NEEDED, BDG HAD COMMISSIONED A "COMPREHENSIVE SUTDY" OF DRYERS ON HAND, REPAIRS REQUIRED AND OVERALL NEEDS. SUTDY IS TO BE COMPLETE BY END-JULY, AND BDG PLANNED TO APPROACH DONORS FOR HELP INSFIME FOR 1977 AMAN PROCUREMENT DRIVE. THE IBRD WAS EXPECTED TO HELP IN THIS AREA, BUT NOT BEFORE 1978. AID MISSION DIRECTOR TONER ASSURED BDG OFFICIALS U.S. WOULD SUPPORT BDG EFFORTS TO ENLIST HELP FROM DONORS.

4. IN RESPONSE TO U.S. SUGGESTION FOR INCREASING WHEAT AND DECREASING RICE PORTIONS OF RATION SYSTEM AS POSSIBLE MEANS TOWARD REDUCING OFFTAKES (FORCING AFFLUENT TO BUY ADDITIONAL RICE ON OPEN MARKET), BDG OFFICIALS SAID THAT THEY HAD DECIDED TO DO THIS BEGINNING NEXT RATION WEEK. EXACT CHANGES FOLLOW (QUANTITIES IN SEERS, WHICH ARE ROUGHLY EQUAL TO KILOS):

CATEGORY	PRESENT RATION	NEW RATION
STATUTORY RATION (SR), TOTAL	3	3
WHEAT	1	1.5
RICE	2	1.5
MODIFIED RATION (MR), INCLUDING LIMITED OFFICIAL USE		

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GOVERNMENT EMPOLYEEES OUTSIDE SR		
AREAS, TOTAL	3	3
WHEAT	1	2
RICE	2	1
LARGE (INDUSTRIAL) EMPOLYERS	ID	3
WHEAT	1	3
RICE	2	0

5. EXPECTED EFFECT. BDG OFFICIALS DID NOT EXPECT TOTAL OFFTAKES WOULD, IN FACT, BE REDUCED BY THESE CHANGES, AS OFFTAKES WERE VERY SENSITIVE TO OPEN MARKET RICE PRICES, WHICH COULD BE EXPECTED TO RISE AS RICE RATION WAS CUT. AS PART OF THIS DISCUSSION, BDG OFFCKIAL S

ESTIMATED MAY OFFTAKES AT 130,000HST, BELOW THE APRIL LEVEL OF 156,000, DUE LARGELY TO FLOOD-REDUCED FOOD FOR WORK PROJECTS AND HENCE, LOWER FFW OFFTAKES. THEY PREDICTED A RETURN TO HIGHER OFFTAKE LEVELS IN JUNE AND JULY AS OPEN MARKET RICE PRICES ROSE.

6. SHIPPING CONGESTION. U.S. NEGOTIATORS SAID THAT LATEST VISIT

TO CHITTAGONG REVEALED AN UNLOADING RATE OF WELL UNDER 2,000 MT/DAY, AGAINST THE 6,500 MT/DAY PACE REQUIRED TO ACHIEVE 200,000 MT MONTHLY PERFORMANCE. BDG OFFICIALS REITERATED THEIR CONFIDENCE THAT IF MONSOON WERE NOT TOO SEVERE, 200,000 MT RATE COULD BE ACHIEVED AND NOTED THAT WHILE JUNE ARRIVALS (OVER 300,000 MT) WOULD CAUSE PROBLEM OF CONGESTION, MONTHLY ARRIVALS FROM JULY THROUGH NOVEMBER WERE EACH WELL UNDER 200,000 MT. (AT THIS POINT WE WERE GIVEN YET ANOTHER SET OF FOODGRAIN PROJECTIONS -- DIFFERING SOMEWHAT FROM WFP FORECAST ISSUED MAY 31--AND INTERESTING MAINLY FOR ITS BREAKDOWN OF MONTHLY OPENING STOCKS IN WHEAT AND RICE. WE ARE TRANSMITTING THIS BY AIRGRAM JUNE 10.)

7. CONCLUSION OF SESSION. BDG NEGOTIATORS AGREED READILY WITH NEED FOR EFFECTIVE MEASURES TO RAISE FARMGATE PRICES AS ESSENTIAL STEP TOWARD STATED GOAL OF FOODGRAIN SELF-SUFFICIENCY, BUT DID NOT THINK THAT ANY FURTHER QUANTITATIVE MEASURES BEYOND INCREASE IN PROCUREMENT PRICE, CHANGES IN RATION GRAIN MIX (PARA 4 ABOVE) LIMITED OFFICIAL USE

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AND PROSPECTIVE CESSATION OF RATION PRIVILEGE FOR AFFLUENT (REFTEL A) WOULD BE POSSIBLE (BY IMPLICATION, POLITICALLY POSSIBLE) THIS YEAR. THEY SAID THAT BDG MEMORANDUM FOR BANGLADESH AID GROUP WOULD BE PRESENTED TO DONOR REPRESENTATIVES JUNE 9, BUT THAT IT WOULD CONTAIN NO ADDITIONAL SPECIFIC FOOD POLICY MEASURES. WE AGREED TO REPORT POSITIVE STEPS TAKEN BY BDG TO WASHINGTON, BUT EMPHASIZED OUR CONCERN WITH NEED FOR ADDITIONAL MEASURES, SUCH AS RISE DURING FY 1978 OF RATION PRICES. BDG OFFICIALS DID NOT RULE OUT THIS LATTER POSSIBILITY.

8. COMMENT/RECOMMENDATION. THE STEPS TAKEN TO MAKE THE 1977/78 AMAN PROCUREMENT DRIVE MORE EFFECTIVE THAN THE 1976/77 EFFORT ARE PROMISING INDEED, AND MATCH REASONABLY CLOSELY THE LIST OF RECOMMENDED MEASURES IN PARA 101 ON THE MAY 19 IBRD REPORT ON BANGLADESH (NO. 1469-BD). THE CHANGE IN THE RATION AMOUNTS OF RICE AND WHEAT, WHILE SENSIBLE ENOUGH IN NUTRITIONAL TERMS MAY HAVE ONLY LIMITED EFFECT ON TOTAL OFFTAKES, AND WAS DOUBTLESS TAKEN PRIMARILY IN RESPONSE TO LOW BDG RICE STOCKS. WE PLAN TO TRY TO GET A READING ON THE SERIOUSNESS WITH WHICH THE BDG MAY BE CONSIDERING A RATION PRICE RISE DURING FY 78, A MEASURE FAINTLY HINTED AT BY DR. HUDA (REF B) AND THE SUBJECT OF REPEATED LOCAL RUMORS. WE THINK THAT THE JUNE 9 REGVASE OF THE BDG MEMORANDUM FOR THE AID GROUP MEETING WILL PROVIDE A GOOD OPPORTUNITY TO DO SO. IF THE BDG IS, IN FACT, COMMITTED TO SUCH A PRICE RISE DURING FY 78, WE BELIEVE WE SHOULD CONCLUDE THE PROPOSED AMENDMENT, WHETHER OR NOT WE GET FORMAL LANGUAGE TO THAT EFFECT IN OUR (PUBLIC) EXCHANGE OF NOTES.
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